

Commonwealth of Virginia

Department of Behavioral Health and
Developmental Services

Annual Financial Report Fiscal Year 2012



James W. Stewart, III
Commissioner

Written and Published by the
Division of Finance and Administration
Office of Budget and Financial Reporting

TRANSMITTAL LETTER

TO USERS AND READERS OF OUR FINANCIAL STATEMENTS

We are pleased to provide the Annual Financial Report for the Virginia Department of Behavioral Health and Developmental Services (the "Department") for the fiscal year ended June 30, 2012. This report contains informative financial and statistical data about the Department, which includes the Central Office, sixteen (16) state operated facilities, and funding for forty (40) community services boards. This report is also available on the Department's web page at www.DBHDS.virginia.gov.

Since 1987, the Department has produced annual financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements for the fiscal year ended June 30, 2012 are presented in accordance with the enterprise fund model as required by Governmental Accounting Standards Board (GASB) Statement Number 34, "***Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments***". The use of GAAP requires use of estimates and accruals to match revenues in the period earned and expenses in the period incurred. This Annual Financial Report represents the Department's commitment to the accurate financial reporting of its activities.

James W. Stewart, III
Commissioner

Joy Yeh, CPA, Ph.D.
Assistant Commissioner,
Finance and Administration

September 4, 2013

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CREATING OPPORTUNITIES: A PLAN FOR ADVANCING COMMUNITY-FOCUSED SERVICES IN VIRGINIA

To fulfill its responsibility to establish a strategic agenda and related initiatives for Virginia's behavioral health and developmental services system, the Department of Behavioral Health and Developmental Services (DBHDS) has developed *Creating Opportunities: A Plan for Advancing Community-Focused Services in Virginia*. The plan identifies behavioral health and developmental services strategic initiatives and major DBHDS activities to be addressed over the next three and a half years. These initiatives and activities are intended to:

- Continue progress in advancing the DBHDS vision of a system of behavioral health and developmental services and supports that promotes self-determination, empowerment, recovery, resilience, health, and the highest possible level of participation by individuals receiving services in all aspects of community life;
- Support the Governor's expressed intentions to achieve a Commonwealth of Opportunity for all Virginians, including individuals receiving behavioral health or developmental services; and
- Assure that the services system is efficient and well-managed and that its core functions are performed in a manner that is effective and responsive to the needs of individuals receiving services and their families.

The Creating Opportunities Plan, which was presented to and endorsed by the State Board of Behavioral Health and Developmental Services on June 25, 2010, is built on previous planning efforts; enabling the DBHDS to structure an accelerated and condensed planning process that will allow implementation of the following initiatives to begin quickly. For each strategic initiative, an implementation action team will be established to develop detailed implementation plans that will include specific action steps, outcomes, and timelines. The DBHDS and System Leadership Council will monitor the implementation of each initiative.

Behavioral Health Services Strategic Initiatives

1. Strengthen the responsiveness of the emergency response system and maximize the consistency, availability, and accessibility of services for individuals in crisis across Virginia.
2. Develop infrastructure to increase peers in direct service roles and expand recovery support services.
3. Address housing needs for individuals with mental health or substance use disorders through involvement in the Governor's initiative to reduce homelessness and expand affordable housing.
4. Create employment opportunities for individuals with mental health or substance use disorders through coordination with the Governor's Economic Development and Job Creation Commission.
5. Enhance access to a consistent array of substance abuse treatment services across Virginia.
6. Review and develop strategies to enhance the effectiveness and efficiency of state hospital services.
7. Strengthen the capability of the case management system to support individuals with long term mental health or substance use disorders and children with serious emotional disturbance.
8. Develop and implement a comprehensive plan for child and adolescent mental health services.

Developmental Services Strategic Initiatives

1. Build community services and supports capacity that will enable individuals who need developmental services and supports, including those with multiple disabilities, to live a life that is fully integrated in the community.
2. Address housing needs of individuals receiving developmental services and supports through involvement in the Governor's initiative to reduce homelessness and expand affordable housing.
3. Create employment opportunities for individuals receiving developmental services and supports through coordination with the Governor's Economic Development and Job Creation Commission.

4. Provide leadership and participate in interagency planning currently underway to identify responsibility at the state level for coordinating and providing services to individuals with developmental disabilities including autism spectrum disorders.
5. Strengthen the capability of the case management and support coordination system to support individuals receiving developmental services and supports.

DBHDS Major Activities:

In addition to implementing the above behavioral health and developmental services initiatives, DBHDS will be engaged in the following major activities:

1. Participate in the work of the Secretary of Health and Human Resources' Office of Health Care Reform and develop strategies to strengthen collaboration between the preventive and primary health care and the behavioral health and developmental services systems;
2. Address sexually violent predator (SVP) service capacity issues, including obtaining necessary resources to safely operate the Virginia Center for Behavioral Rehabilitation and provide appropriate SVP rehabilitation and treatment services; and
3. Develop information technology initiatives to implement electronic health records (EHR) and health information exchange (HIE) with state facilities, CSBs, other pertinent healthcare and provider agencies, facilitate quality management, and perform quality management and outcomes oversight.

In conclusion, the Creating Opportunities Plan affirms the DBHDS vision and builds on the foundation established in previous planning efforts, including the Integrated Strategic Plan. Successful implementation of these initiatives and major activities will continue progress toward achieving a community-focused system of behavioral health and developmental services and supports that increases opportunities for and enriches the lives of individuals receiving services.

Robert F. McDonnell
Governor, Commonwealth of Virginia

William A. Hazel, Jr., M.D.
Secretary of Health and Human Resources

James W. Stewart, III
Commissioner

STATE BOARD MEMBERS (2011-2012)

Cheryl Ivey Green
(Acting Chair)
Richmond, VA

Gretta Doering
Winchester, VA

Snadra Hermann
Virginia Beach, VA

Thomas Kirkup
Richmond, VA

Paula Mitchell
Richmond, VA

Bonnie Neighbour
Richmond, VA

Anthony Soltys
Hampton, VA

Anand Pandurangi
Richmond, VA

VACANCY
Local Elected Official

SENIOR MANAGEMENT TEAM (June 2012)

Olivia Garland
Deputy Commissioner

Joy Yeh, CPA, Ph.D.
Assistant Commissioner,
Finance & Administrative Services

Kathy Drumwright
Assistant Commissioner,
Quality Management & Development

John Pezzoli
Assistant Commissioner,
Behavioral Health Services

Heidi Dix
Assistant Commissioner,
Developmental Services

Jack Barber, MD
Medical Director

Budgetary Highlights

BUDGETARY HIGHLIGHTS

The Department's budget consists of the following sources of funds:

Budget (in Millions)	2012	2011
State General Funds	546.5	545.1
Special Revenue Funds	321.4	315.2
Trust Fund	29.7	0.0
Federal Funds	75.9	79.2
Final Operating Appropriation	973.5	939.5

State General Funds consist of the appropriation of general tax revenues from the Commonwealth of Virginia. These funds subsidize the Department's sixteen inpatient facilities, finance the majority of the Central Office oversight functions, and fund community programs operated by Virginia's community services boards and private not-for-profit organizations.

Special Revenue Funds are derived predominantly from the collection of fees related to the provision of services in the Department's inpatient facilities. These revenues consist of Medicaid reimbursement, Medicare reimbursement, private insurance reimbursement, private payments and Federal entitlement programs.

Federal funds consist of numerous grants from the Federal government. The majority of the Department's federal subsidies consist of the Substance Abuse Prevention Treatment (SAPT) Block Grant and the Community Mental Health Services (CMHS) Block Grant. These grants are passed through to community programs by the Department's Office of Finance and Grants Management. With the exception of the National School Lunch, National School Breakfast, Education of Handicapped Children, and the Virginia Department of Agriculture and Consumer Services Federal Food Distribution Program, all grants are passed through to community programs. A small percentage of federal funds are retained in the central office in order to cover the cost of federal grants administration. Those not passed through are administered by some of the Department's sixteen inpatient facilities. PGH received a grant from Mines, Minerals and Energy.

Of the Department's operating budget of \$973.5 million, \$922.7 million was expended. On a budgetary basis of accounting whereby expenses are recognized when paid as opposed to incurred, the Department expended its appropriated resources for the following programs during fiscal years 2012 and 2011 (in millions):

Budgetary Expenditures (In Millions)	2012	2011
State Health Services	343.7	339.5
Financial Assistance for Health Services (CSB funding)	312.1	306.4
Administration and Support Services	205.2	213.8
Secure Confinement	23.5	23.8
Pharmacy	24.9	23.5
Other Programs	13.3	10.0
Total Budgetary Expenditures	922.7	917.0

The overall increase in budgetary expenditures was 1%.

CAPITAL ASSETS AND CAPITAL OUTLAY BUDGET

The Department's net capital assets (net of accumulated depreciation) totaled \$344.3 million. This amount represents an increase of \$63.6 million or 22.66% from the previous fiscal year. The net increase is primarily due to the increase in Construction in Progress at Western State Hospital, Central Virginia Training Center and Southeastern Virginia Training Center. The information below details the composition of the Department's capital assets (in millions):

	<u>FY 2012</u>	<u>FY 2011</u>
Land	18.5	\$18.4
Infrastructure	13.5	12.7
Equipment	53.4	53.3
Buildings	367.9	365.0
Construction in Progress	116.7	47.9
Accumulated Depreciation	<u>(225.7)</u>	<u>(216.6)</u>
Net Capital Assets	\$344.3	\$280.7

A capital outlay budget is appropriated to the Department on a biennial basis. During a budget biennium (2 year cycle) capital appropriations may be brought forward with the approval of the Department of Planning and Budget. The capital budget is intended to provide capital maintenance, needed modifications to building structures, improvements to facility boiler operations, life safety code modifications, and funds for specific construction projects. For fiscal year 2012 the Department's capital outlay budget was \$175.2 million of which \$81.4 million was expended. The capital outlay budget decreased 22.5% from the prior year and expenditures increased by 35.9%.

System Characteristics

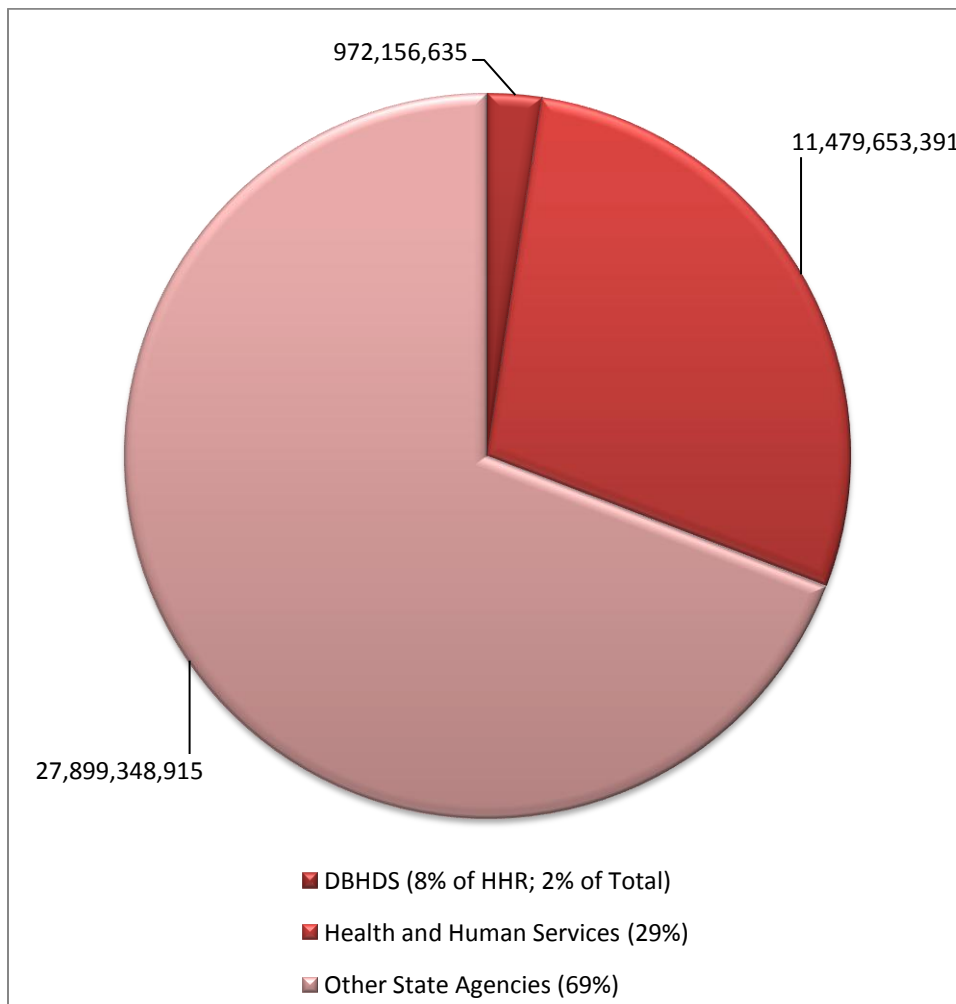
SYSTEM CHARACTERISTICS OF THE DEPARTMENT

The Virginia Department of Behavioral Health and Developmental Services (the "Department" or DBHDS) consists of ten mental health facilities, five training centers for the intellectually disabled, one medical center, and a Central Office. The Department also funds forty community services boards.

This section of the Annual Financial Report presents budgetary information and overall systems funding information for FY 2012 to provide the reader with a perspective of the size of the service delivery system in which the Department operates.

FY 2012 BUDGET

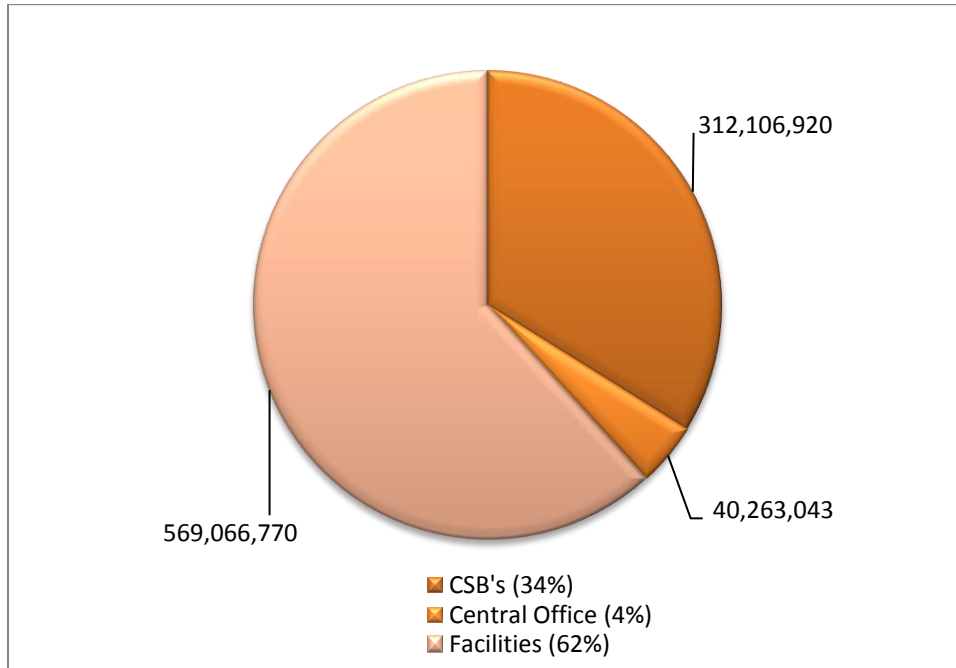
COMMONWEALTH OF VIRGINIA
\$40.35 Billion (Final Operating Appropriation)
Per Operating Plan from DPB's PB System



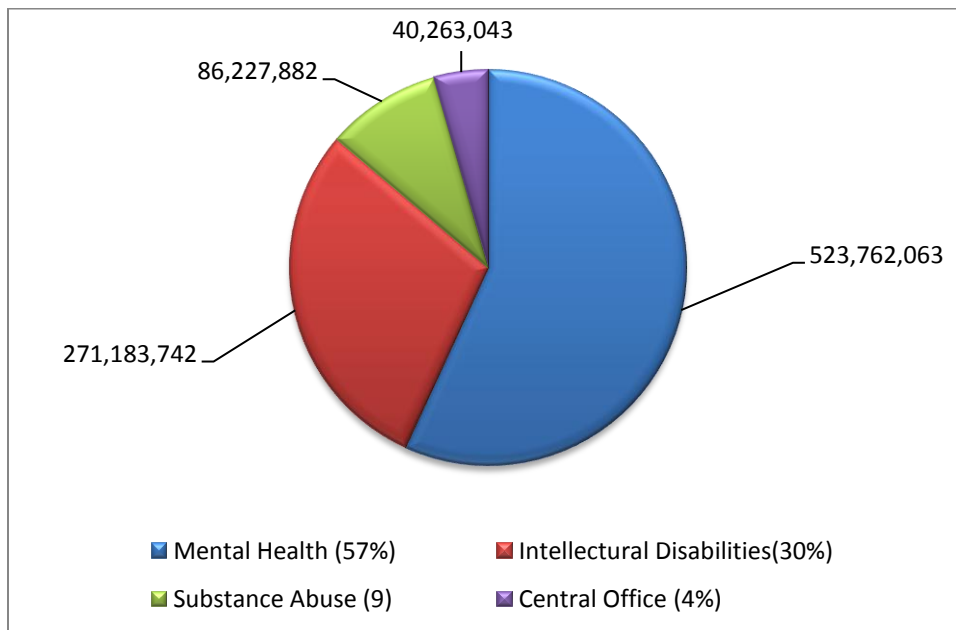
The following charts present FY 2012 final budgetary expenditures for all facilities, CSBs, and the Central Office. Also presented are expenditures by program area: Mental Health, Intellectual Disabilities, Substance Abuse, Administration and Support, and the Central Office.

FY 2012 BUDGETARY EXPENDITURES

FACILITIES, CSBs, CENTRAL OFFICE
\$921.4 Million Total Expenditures



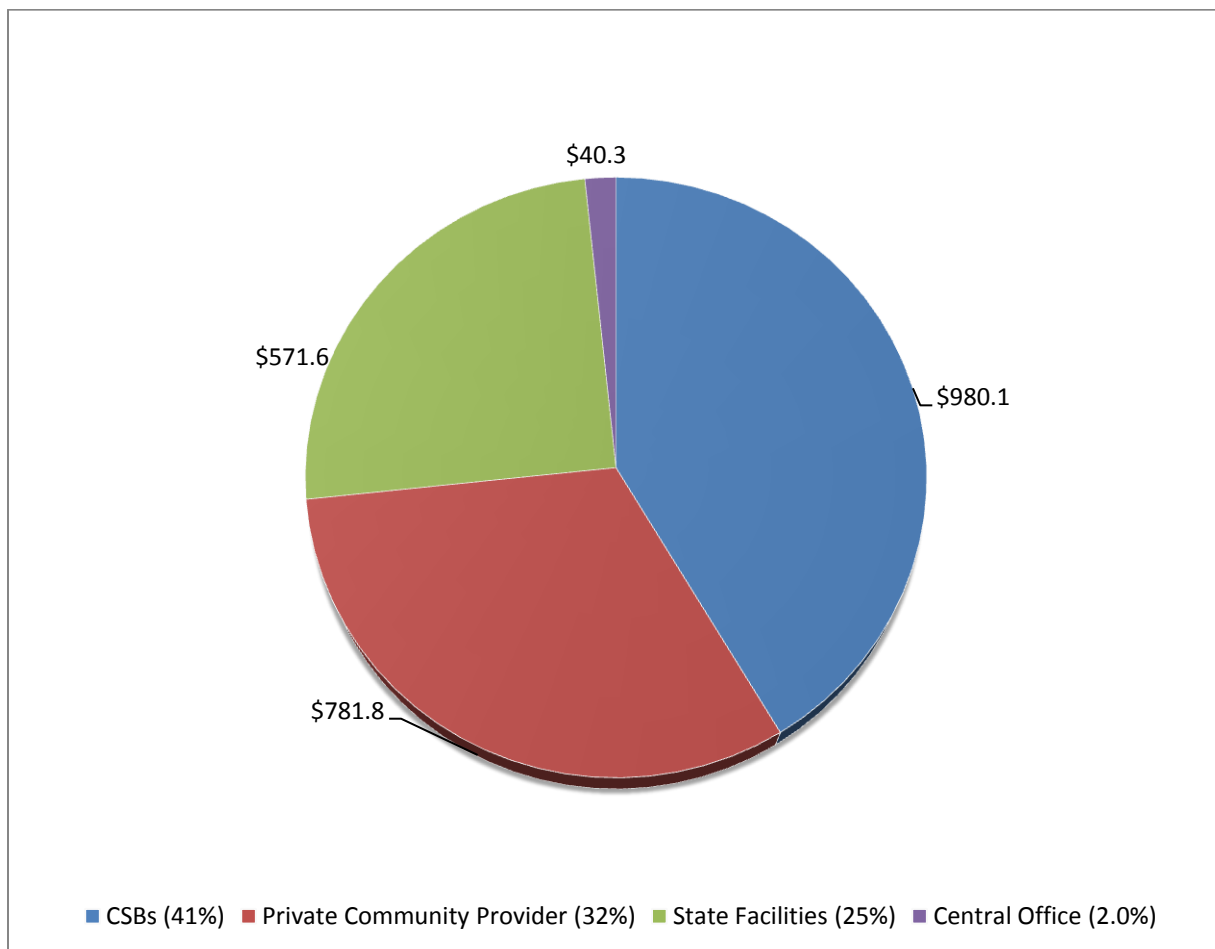
BY PROGRAM
\$921.4 Million Total Expenditures



The following chart is provided to present a service systems funding overview for FY 2012 and includes total funding available for publicly funded mental health, intellectual disabilities and substance abuse services within the Commonwealth. This includes private provider participation. Total Services Systems Funding is defined as amounts for the operation of DBHDS Facilities, Central Office, CSBs, and Medicaid funds for related community services. CSB funding includes amounts provided by the federal, state, and local governments, and includes Medicaid, Medicare, and other fees.

FY 2012 – TOTAL SERVICES SYSTEMS FUNDING
CSBs, Facilities, Central Office

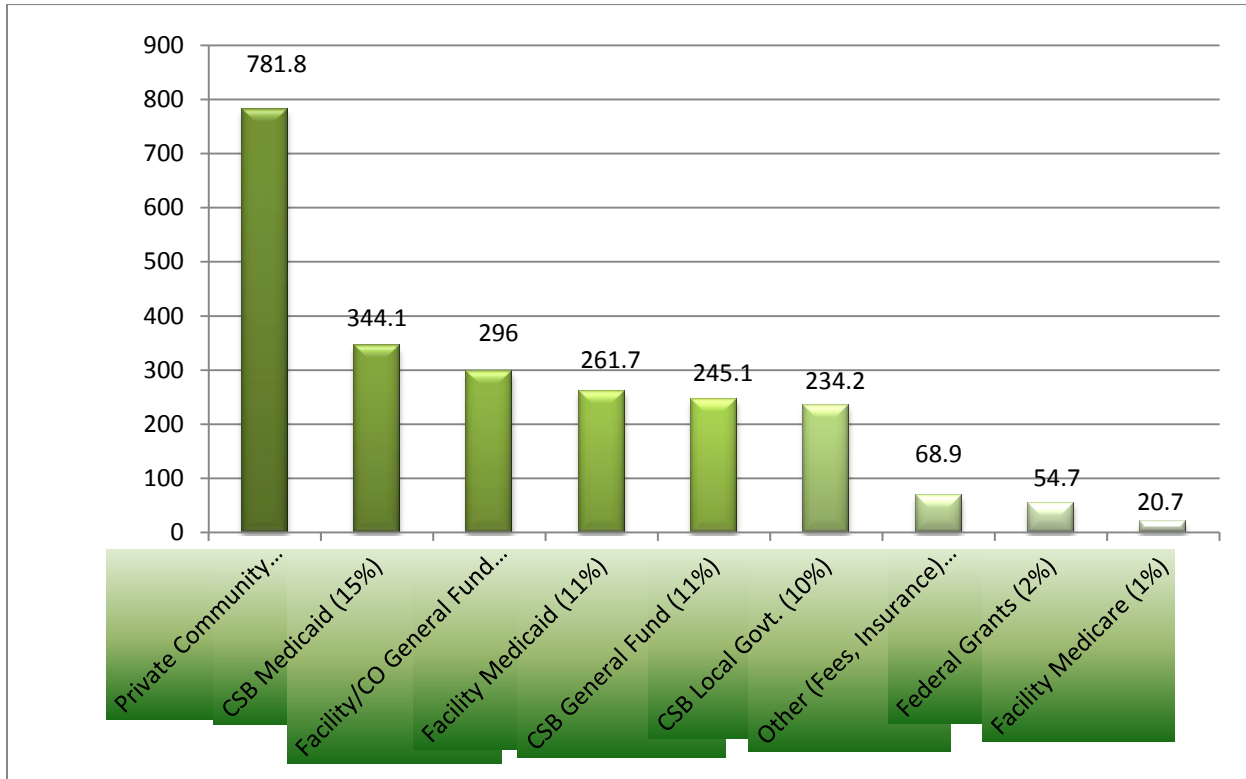
Grand Total \$2.374 Billion



The following chart presents total services systems funding for FY 2012 by funding source for Community Services Boards (CSBs), State Facilities, and the DBHDS Central Office.

TOTAL SERVICES SYSTEM FUNDING – FY 2012
GENERAL FUND, MEDICAID SOURCES, FEDERAL, LOCAL

GRAND TOTAL \$2.307 BILLION



Presented below is a comparison between 2011 and 2012.

Funding Source	2012 \$ Millions	2012 %	2011 \$ Millions	2011 %
Private Community Provider (34%)	781.8	34%	747.1	33%
CSB Medicaid (15%)	344.1	15%	348.8	15%
Facility/CO General Fund (13%)	296	13%	299	13%
Facility Medicaid (11%)	261.7	11%	261.3	11%
CSB General Fund (11%)	245.1	11%	244.1	11%
CSB Local Govt. (10%)	234.2	10%	212.6	9%
Other (Fees, Insurance) (3%)	68.9	3%	95.1	4%
Federal Grants (2%)	54.7	2%	70.2	3%
Facility Medicare (1%)	20.7	1%	19.2	1%
Total	\$2,307.20	100%	\$2,297.90	100%

Source: DBHDS' Office of Budget and Financial Reporting

COMMUNITY SERVICES BOARDS

Community services boards or CSBs and behavioral health authority or BHA mean the public bodies organized in accordance with the relevant provisions of Chapter 5 or 6, respectively, of Title 37.2 of the *Code of Virginia* as well as the agencies (staff) that provides direct and contracted mental health, intellectual disability, and substance abuse services to individuals with mental health or substance use disorders or intellectual disability in their localities. Listed below are the forty community services boards serving Virginia residents.

Virginia Community Services Boards

Alexandria	Highlands
Alleghany Highlands	Loudoun County
Arlington County	Middle Peninsula-Northern Neck
Blue Ridge Behavioral Healthcare	Mount Rogers
Central Virginia	New River Valley
Chesapeake	Norfolk
Chesterfield	Northwestern
Colonial	Piedmont
Crossroads	Planning District One Behavioral Health Services
Cumberland Mountain	Portsmouth Dept. of Behavioral Healthcare Services
Danville-Pittsylvania	Prince William County
Dickenson County Behavioral Health Services	Rappahannock Area
District 19	Rappahannock-Rapidan
Eastern Shore	Region Ten
Fairfax-Falls Church	Richmond Behavioral Health Authority
Goochland-Powhatan	Rockbridge Area
Hampton-Newport News	Southside
Hanover County	Valley
Harrisonburg-Rockingham	Virginia Beach Dept. of MH/MR/SAS
Henrico Area	Western Tidewater

There are three types of CSBs, depending on their relationships with the local governments that established them. There are 28 operating CSBs and one BHA, which employ their own staff, are not city or county departments, and function independently of their local governments. There are 10 administrative policy CSBs, which use local government staff to provide services and function as local government departments (eight of these CSBs are actual city or county departments). There is one policy-advisory CSB with a local government department. Board members are appointed by the city councils and boards of supervisors that established the CSB. Approximately 12,381 CSB staff and thousands of contract agency staff provide services to more than 196,951 individuals with mental health or substance use disorders or intellectual disability in FY 2012.

CENTRAL OFFICE

The Department's Central Office has oversight responsibility for the programmatic, financial and administrative activities occurring within the state facilities and community services boards. This office promulgates and enforces policy and provides technical assistance to facilities and community services boards. The Department also licenses and regulates public and private programs and facilities. Joy Yeh, CPA, Ph.D., is the Assistant Commissioner for Finance and Administration.

STATE FACILITIES

The Department operates ten inpatient mental health facilities. These mental health facilities consist of one adolescent facility, one geriatric facility, and eight adult facilities. The Department also operates five training centers for people with intellectual disabilities and one medical center. In FY 2003 the Virginia Center for Behavioral Rehabilitation began operation in order to treat sexually violent predators. Overall, the Department has more than 400 buildings. As of June 30, 2012, the Department consisted of 8,340 employees and the facility daily average patient census was 2,608. The daily average patient census for each facility is presented below. Employee and census information are also presented for a period spanning 40 years in the charts that follow.

Virginia's State Hospitals

<u>Facility</u>	<u>Description</u>
Catawba Hospital Director: Walton F. Mitchell, III Facility Administrator: Charles C. Law, MHA Finance Director: Cecil Hardin, CPA	Located in Catawba, Virginia, this facility provides care to patients and short-term care to adults from nearby communities. The FY 2012 daily average patient census was 93.
Central State Hospital Director: Vicki Montgomery Facility Administrator: Peter Lehman Finance Director: Bob Kaufman	Located in Petersburg, Virginia, this facility provides inpatient adult psychiatric services as well as forensic and adolescent psychiatric services. The FY 2012 daily average patient census was 216.
Eastern State Hospital Director: Jack L. Wood, MBA, VCO, MHA Facility Administrator: Chris Bowman Finance Director: Timothy Crittenden	Located in Williamsburg, Virginia, this hospital provides adult, geriatric, acute and chronic psychiatric, behavioral and dual diagnosis to individuals with mental illness and chemical dependency. The FY 2012 daily average patient census was 267.
Commonwealth Center for Children and Adolescents Director: William J. Tuell, RN, MSN Facility Administrator: Vickie Hite Finance Director: Vickie Hite	Located in Staunton, Virginia, this new facility provides highly specialized intensive diagnostic, evaluation and psychiatric treatment services to children between the ages of four and eighteen. The FY 2012 daily average patient census was 37.
Northern Virginia Mental Health Institute Director: R. Maximilien Del Rio, MD, JD, MPH, FCLM Facility Administrator: Richard Lopez, MBA Finance Director: John Poffenbarger	Located in Falls Church, Virginia, this facility provides acute psychiatric care. The FY 2012 daily average patient census was 112.
Piedmont Geriatric Hospital Director: Stephen M. Herrick, Ph.D. Fac. Administrator: Lynne Inge Finance Director: Lynne Inge	Located in Burkeville, Virginia, this hospital provides care for geriatric patients. The FY 2012 daily average patient census was 101.
Southern Virginia Mental Health Institute Director: David M. Lyon, MBA Facility Administrator: Robin Crews Finance Director: Wayne Peters	Located in Danville, Virginia, this facility provides short-term acute psychiatric care. The FY 2012 daily average patient census was 71.
Southwestern Virginia Mental Health Institute Director: Cynthia McClaskey, Ph.D. Facility Administrator: Amanda Currin Finance Director: Lonzo Lester, Jr.	Located in Marion, Virginia, this facility provides acute and long-term care for adolescents, adults, and geriatrics. The FY 2012 daily average patient census was 149.
Western State Hospital Director: Jack Barber, MD Facility Administrator: David Mawyer Finance Director: Jon Chapman	Located in Staunton, Virginia, this hospital provides inpatient adult psychiatric services. The FY 2012 daily average patient census was 221.
Virginia Center for Behavioral Rehabilitation Director: Kimberly Runion Assistant Director: Lynne Inge Finance Director: Lynne Inge	Located in Burkeville, Virginia, this facility was established July 1, 2003 and moved to its current location in February 2008. The purpose of VCBR is to provide treatment to individuals deemed to be sexually violent. Patients at this facility have completed their prison terms associated with sexually violent behavior

and are receiving inpatient treatment for their disorders. The FY 2012 daily average patient census was 274.

Virginia's Training Centers

The Department's training centers provide residential care and training in such areas as language, self-care, independent living, socialization, academic skills and motor development. Each training center is described below.

<u>Facility</u>	<u>Description</u>
Central Virginia Training Center Director: Dale Woods, Ed. D. Facility Administrator: Charles Felmlee Finance Director: Charles Felmlee	Located in Lynchburg, Virginia, this center provides inpatient services to residents who are severely and profoundly retarded. The FY 2012 daily average patient census was 356.
Northern Virginia Training Center Director: Mark Diorio, Ph.D. Facility Administrator: Philippe Peter Finance Director: Catherine Kost, CPA	Located in Fairfax, Virginia, this center serves residents with moderate to profound Intellectual disabilities. The FY 2012 daily average patient census was 152.
Southeastern Virginia Training Center Director: Robert D. Shrewsberry, Ph.D. Facility Administrator: Brian Whitesell Finance Director: Frank Sivieri	Located in Chesapeake, Virginia, this center serves individuals with severe to profound Intellectual disabilities. The FY 2012 daily average patient census was 111.
Southwestern Virginia Training Center Director: Dennis Shrewsberry (Acting) Facility Administrator: Kevin Meyer Finance Director: Karen Hash	Located in Hillsville, Virginia, this center serves persons with severe to profound Intellectual disabilities and multiple disabilities. The FY 2012 daily average patient census was 174.
Southside Virginia Training Center Director: William Hawkins Facility Administrator: Bob Kaufman Finance Director: Bob Kaufman	Located in Petersburg, Virginia, this center serves individuals with severe to profound Intellectual disabilities and varying physical disabilities. The FY 2012 daily average patient census was 220. This facility provides administrative and operational support to Central State Hospital and Hiram Davis Medical Center.

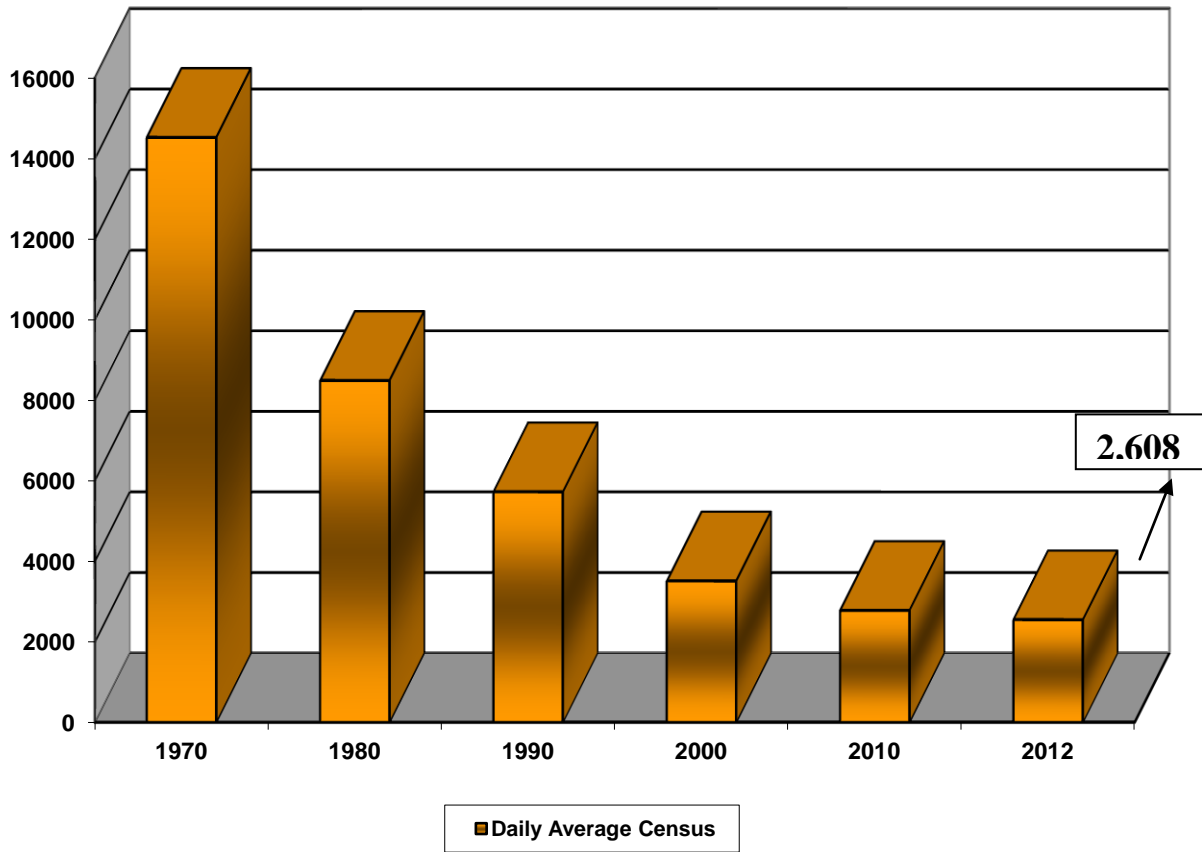
Medical Center

Hiram Davis Medical Center Operations Director: William Hawkins Facility Administrator: Brenda Buenvenida Finance Director: Bob Kaufman	Located in Petersburg, Virginia, the Department operates this center, which serves the medical needs of patients and residents of Central State Hospital, and Southside Virginia Training Center, respectively. The medical center also operates an aftercare pharmacy, which provides medications to the patients and residents of the Petersburg Complex and clients of the forty community services boards. The FY 2012 daily average patient census was 55.
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STATE FACILITIES STATISTICS

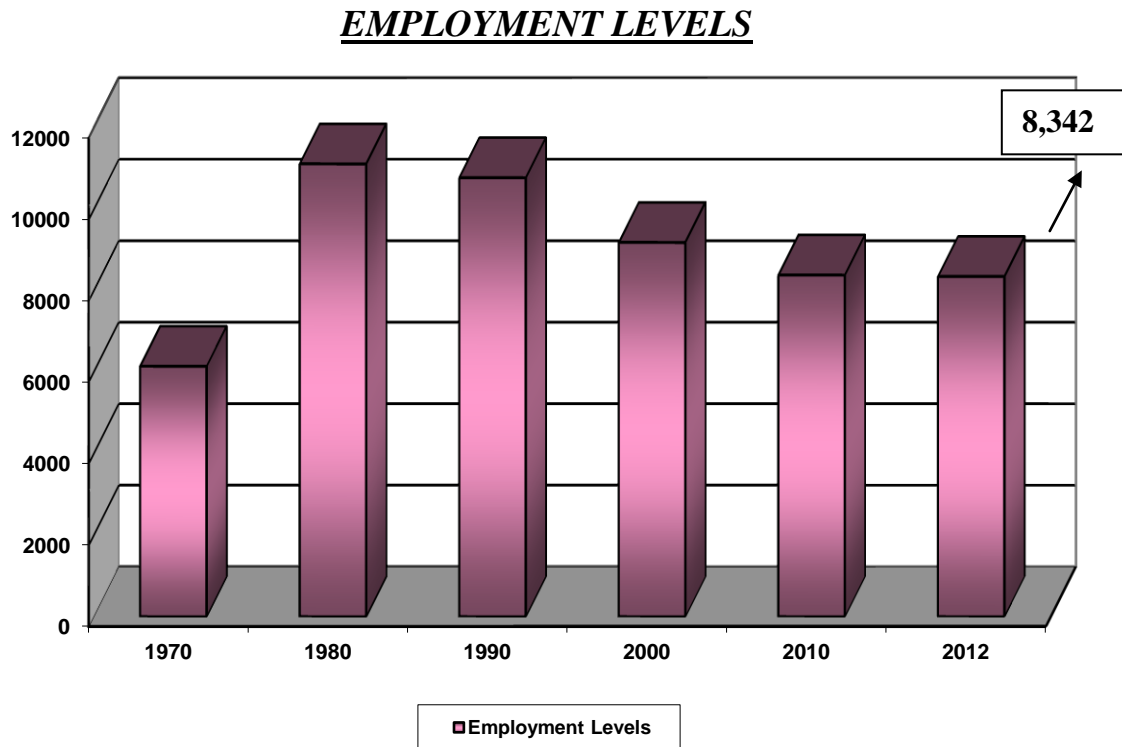
The following chart presents selected patient census levels over the past 40 years. As can be noted, the Daily Average Census levels have been steadily declining since 1970 with a gradual leveling since 2000. In 1970, the Daily Average Census was 14,514 and in 2012 the Daily Average Census was 2,608.

PATIENT CENSUS



Source: “Comparative Analysis-Operating Statistics and Costs” and “Ten Year Expenditure Analyses.”
DBHDS Office of Budget and Financial Reporting

The following chart presents selected employment levels over the past 40 years. Employment levels have been declining since 1980. The 1980 level was 11,106 and the 2012 level was 8,342. These employment levels include all DBHDS operations (facilities, central office, and Inspector General).



Source: DBHDS Office of Budget and Financial Reporting “Comparative Analysis-Operating Statistics and Cost” and “Ten Year Expenditure Analyses.”

Note: Employment levels presented above are employees on payroll at the end of the fiscal year. Employment levels were low in the 1970's due to the operation of fewer facilities by DBHDS. In 1970, DBHDS operated 9 facilities. In 1980 there were 17 facilities and from 1990-2003 there were 15 facilities. Since 2004, DBHDS has operated 16 facilities.

Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

For the Fiscal Year Ending June 30, 2012

This section of the annual financial report of the Department of Behavioral Health and Developmental Services (the Department) represents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2012. Please read and review this information in conjunction with the Department's transmittal letter at the front of this report and the Department's financial statements and note disclosures.

OVERVIEW OF FINANCIAL STATEMENTS:

The basic financial statements of the Virginia Department of Behavioral Health and Developmental Services (the Department) are presented in a proprietary fund format in accordance with the principles of an enterprise fund. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. There are numerous sections of the Code of Virginia that require the Department to maximize efforts to recover the costs of services rendered at our sixteen inpatient facilities. Due to this, a fee is applicable to every service provided. The Department is required by law to maximize its efforts to collect such fees from individual patients, legally liable parties, and third party coverage such as Medicaid, Medicare and private insurance.

In addition to the operation of inpatient facilities, the Department funds community programs operated by the Commonwealth's forty community services boards. Funding is also provided to a number of private not-for-profit organizations providing mental health, intellectual disabilities and substance abuse services in a community setting. This funding consists of state general funds from the Commonwealth of Virginia and Federal grant subsidies. These financial activities, along with those attributable to capital maintenance and restricted donations, are presented in the financial statements as non-operating financial activities. The financial statements and information presented include the following:

Statement of Net Assets: This financial statement displays the Department's assets and liabilities and the difference between them (net assets). Changes in net assets (increases and decreases) represent one mechanism to measure the financial health of the Department and whether its financial position is improving or deteriorating.

The Department's net assets increased by approximately \$121.5 million, which is (40%) from \$302.1 million to \$423.6 million. This increase in net assets was primarily attributable to significant construction that took place at a number of facilities. Cost reduction also played a part in increasing our net assets in fiscal year 2012.

Statement of Revenues, Expenses and Changes in Net Assets: This financial statement presents the operating results of the Department for the fiscal year ended June 30, 2012. The Department uses the accrual basis of accounting whereby revenues are recognized when earned as opposed to received and expenses are recognized when incurred as opposed to when paid.

Total revenues increased (10%) to \$1.003 billion. Net Patient Service Revenue increased \$49.4 million and Appropriations from the Commonwealth increased \$10.4 million. Federal revenues increased \$.6 million.

Virginia Department of Behavioral Health and Developmental Services		
Statement of Net Assets		
For the Fiscal Year Ended June 30, 2012		
With Comparative Figures for FY 2011		
	Fiscal Year 2012	Fiscal Year 2011
Assets		
Current Assets:		
Cash, Cash Equivalents and Investments	5,697,999	2,288,430
Cash with Treasurer of Virginia	49,111,555	30,140,361
Appropriations Available	8,850,972	-
Patient Accounts Receivable (Net of Allowance for Doubtful Accounts of \$19,212,739 for 2012 and \$27,326,073 for 2011)	47,131,970	30,903,601
Cost Settlements Receivable	27,369,336	15,799,442
Inventories	5,963,480	6,730,450
Prepaid Assets	32,445,791	32,480,579
Total Current Assets	176,571,103	118,342,863
Noncurrent Assets		
Capital Outlay funds	(12,584,713)	(5,090,946)
Patient Resident Funds Held by Trustee	3,358,651	3,706,117
Property, Plant and Equipment (Net of Accumulated Depreciation)	339,232,810	280,733,200
Total Noncurrent Assets	330,006,748	279,348,371
Total Assets	506,577,851	397,691,234
Liabilities		
Current Liabilities:		
Accrued Payroll	26,260,421	26,218,479
Accounts Payable	8,824,129	9,806,551
Compensated Absences	107,937	141,437
Retainage Payable	5,005,796	2,670,483
Deferred Revenue	6,198	1,356,935
Other Liabilities	179,040	179,382
Total Current Liabilities	40,383,521	40,373,267
Noncurrent Liabilities		
Compensated Absences	33,276,525	32,769,160
Patient Resident Funds Held by Trustee	3,358,651	3,706,117
Installment Purchase Obligations	22,121,752	18,735,147
Total Noncurrent Liabilities	58,756,928	55,210,424
Total Liabilities	99,140,449	95,583,691
Net Assets		
Invested in Capital Assets	339,232,810	280,733,200
Retained Earnings	309,728	302,812
Unrestricted	81,826,915	53,396,031
Restricted	(13,932,051)	(32,324,500)
Total Net Assets	407,437,402	302,107,543
Total Liabilities and Net Assets	506,577,851	397,691,234

Virginia Department of Behavioral Health and Developmental Services Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2012 With Comparative Figures for FY 2011		
	Fiscal Year 2012	Fiscal Year 2011
Operating Revenues		
Net Patient Service Revenue	325,205,930	292,075,813
Other Operating Revenue	6,589,320	1,231,282
Total Operating Revenue	331,795,250	293,307,095
Expenses		
State Health Services	343,037,488	344,317,336
Administration and Support Services	199,215,033	188,705,153
Secure Confinement	23,657,421	23,250,860
Pharmacy Services	28,494,702	21,399,557
Depreciation Expense	12,709,844	9,934,452
Instruction	9,923,874	7,844,095
Regulation of Public Facilities	2,275,630	1,566,031
Loss on Disposal of Equipment	55,361	285,424
Total Operating Expenses	619,369,353	597,302,908
Operating Income (Loss)	(287,574,103)	(303,995,813)
Nonoperating Income (Loss)		
Appropriation from the Commonwealth	555,616,218	545,161,721
Federal Grant Revenues	69,463,654	68,898,509
Restricted Donations	30,152,330	255,585
Surplus Property Sales	81,903	57,040
Insurance Recovery Proceeds	34,081	3,000,000
Interest Income	342	484
Financial Assistance for Health Services	(313,585,133)	(306,357,077)
Capital Outlay Expenses	(11,713,539)	(17,435,922)
Other Nonoperating Expenses	(8,800,663)	(8,021,320)
Total Nonoperating Income (Loss)	321,249,193	285,559,020
Income (Loss) Before Contributions and Transfers	33,675,090	(18,436,793)
Transfers from Department of Medical Assistance Services		-
Capital Appropriations from the Commonwealth		-
Capital Revenue Bond Proceeds	74,042,658	58,961,321
Reversions to the Commonwealth	(2,407,322)	(2,165,613)
Net Operating Transfers	19,433	701,619
Change in Net Assets	105,329,859	39,060,534
Net Assets, Beginning of Year	302,107,543	263,047,009
Net Assets, End of Year	407,437,402	302,107,543

Virginia Department of Behavioral Health and Developmental Services	
Statement of Cash Flows	
For the Fiscal Year Ended June 30, 2012	
Cash Flows from Operating Activities:	
Receipts from Patient Services	301,150,714
Other Operating Receipts	1,299,054
Payments to Employees	(463,807,869)
Payments to Suppliers	(136,476,078)
Net Cash Provided by Operations	(297,834,179)
Cash Flows from Noncapital Financing Activities:	
Operating Subsidies-General Fund Appropriations	555,616,218
Federal Grant Subsidies	68,112,917
Payments to Community Programs	(312,106,920)
Net Operating Transfers and Reversions	(2,442,025)
Restricted Donations	30,053,963
Restricted Expenditures	(130,681)
Restricted Expenditures (Local Funds)	(908,340)
Endowment Expenditures	(10,458)
Nonoperating Expenditures	-
Transfers to Patient and Canteen Activities	(348,015)
Interest Income from Endowment Funds	342
Net Cash Flows from Noncapital Financing Activities	337,837,001
Cash Flows from Capital and Related Financing:	
Revenue Bond Proceeds	74,042,658
Capital Outlay Expenditures	(81,428,916)
Capital Outlay Appropriations	-
Net Cash Transfers and Reversions	-
Net Cash Flows from Capital and Related Financing	(7,386,258)
Net Increase (Decrease) in Cash and Cash Equivalents	32,616,564
Balance at Beginning of Year	31,043,962
Balance at End of Year	63,660,526
Reconciliation of Operating Loss to Net Cash Used by Operations	
Operating Loss	(271,347,435)
Adjustments to reconcile Operating Loss to Net Cash used by Operations:	
Depreciation Expense	12,709,844
Loss on Disposal of Property	55,361
Net Changes in Assets and Liabilities:	
Accounts Receivable	(32,455,037)
Third Party Settlements Receivable	(11,569,894)
Inventories	766,970
Prepaid Assets	34,788
Accrued Payroll	41,942
Accounts Payable	(982,422)
Compensated Absences - Current	33,500
Retainage Payable	2,335,313
Deferred Revenue	(1,350,737)
Installment Purchase Obligations	3,386,605
Other Current Liabilities	(342)
Compensated Absences - Long Term	507,365
Funds Held in Custody of Others	
Third Party Settlements Payable	
Other Liabilities	
Net Cash Used by Operating Activities	(297,834,179)

Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements represent the activities of the Virginia Department of Behavioral Health and Developmental Services (DBHDS) for the fiscal year ended June 30, 2012. DBHDS is an agency of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth. The financial statements presented include the sixteen state operated facilities and funding for forty community services boards. The state facilities are listed below as follows:

<u>Facility</u>	<u>Location</u>	<u>Facility</u>	<u>Location</u>
Central State Hospital	Petersburg	Northern VA Training Center	Fairfax
Eastern State Hospital	Williamsburg	Southside VA Training Center	Petersburg
Southwestern VA MH Institute	Marion	Northern VA MH Institute	Falls Church
Western State Hospital	Staunton	Piedmont Geriatric Hospital	Burkeville
Central VA Training Center	Lynchburg	Southwestern VA Training Center	Hillsville
Commonwealth Center for Children and Adolescents	Staunton	Southern VA MH Institute	Danville
Southeastern VA Tng. Center	Chesapeake	Hiram Davis Medical Center	Petersburg
Catawba Hospital	Catawba	VA Center for Behavioral Rehabilitation	Burkeville

B. Basis of Accounting

DBHDS has adopted the economic resources measurement focus and full accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Government Accounting Standards Board (GASB) for providers of healthcare services. Revenues are recorded when earned and expenses are recorded when incurred and measurable, regardless of when the related cash flows take place.

Pursuant to GASB Statement 20, Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting, DBHDS has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The financial statements have been prepared in accordance with GASB Statement 34, Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

D. Net Patient Service Revenue

Patient service revenue is recorded at scheduled rates when services are rendered. Allowances and provisions for uncollectible accounts and contractual adjustments are deducted to arrive at net patient service revenue, as are charges for charity services.

E. Indigent Care and Uncollectible Accounts

DBHDS accepts all patients regardless of their ability to pay. A patient is classified as indigent by reference to established Commonwealth policies. The criteria for identifying indigent patients are based on asset and income guidelines that are updated annually in accordance with the federal poverty income guidelines as provided by the Federal Office of Management and Budget. Net Patient Service Revenue includes the gross charges for indigent care less allowances for uncollectible amounts.

F. Settlements Due To/From Third-Party Programs and Contractual Adjustments

A significant portion of the Department's services are rendered to patients covered by Medicare, Medicaid, or Anthem. These third-party payers have entered into contractual arrangements with the Department for reimbursement of services provided to patients in specific certified components of the Department's individual facilities. Generally, the Department is reimbursed for patient services by these third-party payers at the lower of cost or charges or at prospectively determined rates in the case of certified components that provide inpatient services. Throughout the year, the third-party payers reimburse the Department at a prearranged tentative payment amount. In accordance with the third-party payer agreements, the difference between covered charges, whether based upon allowable costs of services or prospectively determined rates, and the Department's standard billing rates results in contractual adjustments. Contractual adjustments are recorded as deductions from patient service revenue in the period in which the related services are rendered. The annual settlements for reimbursement of patient services covered by third-party programs are determined through cost reports, which are subject to audit and retroactive adjustments by these third parties.

G. Investments

Investments are valued at cost or fair market value when received if donated.

H. Inventory

Inventory is generally valued at average cost. DBHDS inventory consists of the following: drugs, medical supplies, materials, food supplies, petroleum/fuel oil, housekeeping and laundry supplies, personal care items and clothing, and office supplies. Adjustments have been made in order to report inventory amounts in accordance with the consumption method.

I. Compensated Absences

Compensated absences reflected in the accompanying financial statements represent the amounts of vacation, sick and compensatory leave earned by employees of the Department, but not taken at June 30, 2012. The amount reflects all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave policies.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, effective for fiscal periods beginning after June 15, 2004, amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements*. GASB Statement 40 eliminates the custodial credit risk disclosures required for Categories 1 and 2 deposits and investments, but maintains disclosures for category 3. The following risk disclosures are required by GASB Statement 40:

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or

collateral securities that are in the possession of an outside party. DBHDS has no Category 3 deposits or investments for 2011. At the end of the year, the carrying amount of Cash Not with the Treasurer of Virginia was \$3,236,183 and the bank balance was \$3,700,746. The bank balances exceeding those covered by Federal Deposit Insurance are protected under the provisions of the Virginia Security for Public Deposits Act.

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement Number 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.

Concentration of Credit Risk - The risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than five percent of DBHDS' investments. The Mutual and Money Market Funds and Local Government Investment Pool represent 4 and 96 percent, respectively, of total investments.

Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. DBHDS does not have an interest rate risk policy.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. DBHDS has no foreign investments or deposits for 2012.

The following information is provided with respect to the risks associated with the DBHDS' cash, cash equivalents, and investments at June 30, 2012.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of DBHDS are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by DBHDS are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2- 4400, et seq., Code of Virginia. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for DBHDS' deposits. Cash and cash equivalents represent cash with the Treasurer, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC). Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. Additional disclosures required for cash equivalents under GASB Statement 40 are presented with the investments in the following tables.

Investments

Authorized investments are set forth in the Investment of Public Funds Act of the Code of Virginia, Sections 2.2-4500 through 2.2-4516. Authorized investments include: U.S. Treasury and agency securities, corporate debt securities of domestic corporations, asset-backed securities, mortgage-backed securities, AAA rated obligations of foreign governments, bankers acceptances and bank notes, negotiable certificates of deposit, repurchase agreements, and money market funds. Investments fall into two groups: short- and long-term. Short-term investments have an original maturity of over 90 days, but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Credit and Concentration of Credit Risks

	Fair Value	Credit Rating	Concentration of Risk Percent
Cash Equivalents:			
U.S. government securities:			
Short-term investment fund	\$15,500	AAA	
Other	\$161,366		
Total Cash Equivalents	\$176,866		
Investments:			
Local government investment pool	\$2,518,350	AAA	100%
Total investments	\$2,518,350		
Total Cash Equivalents and Investments	\$2,695,216		

Interest Rate Risk –Maturities

	Less than 1 year	1-5 years	Total
Investments:			
Local government investment pool	0	\$2,518,350	\$2,518,350
Total Investments	\$0	\$2,518,350	\$2,518,350

Securities Lending Transactions

Investments and cash equivalents held by the Treasury of Virginia represent DBHDS' allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. NONCURRENT ASSETS

Noncurrent Assets are for two primary purposes. The first purpose is for capital maintenance and construction. These funds are held with the Treasurer of Virginia. The second purpose is for discretionary use by DBHDS patient/residents. These funds are held in trust in local bank accounts throughout the State.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or estimated historical cost. The Department capitalizes expenditures for equipment if the equipment is separate, has a multi-year life and has a value or unit acquisition cost in excess of \$5,000 at the date of acquisition (for State Hospitals and Training Centers).

Depreciation on property, plant and equipment is computed over the estimated useful lives of the assets based upon the straight-line method of depreciation. The general range of estimated useful lives is fifteen to forty years for buildings and fixtures and three to fifteen years for equipment. A summary of changes in fixed assets is presented below:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Land	\$18,442,595	\$99,600	\$0	\$18,542,195
Infrastructure	12,687,740	830,989	900	13,517,829
Equipment	53,341,092	2,943,584	2,927,267	53,357,409
Buildings	365,029,072	3,617,465	742,112	367,904,426
Construction in Progress	47,897,356	71,264,815	2,437,672	116,724,499
Accumulated Depr.	<u>(216,664,655)</u>	<u>(12,717,263)</u>	<u>(3,577,506)</u>	<u>(225,759,581)</u>
Total	<u>\$280,733,200</u>	<u>\$66,039,191</u>	<u>\$2,530,445</u>	<u>\$344,286,778</u>

5. RETAINAGE PAYABLE

At June 30, 2012, \$5,005,796 was held by DBHDS as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the various contracts.

6. OPERATING LEASES

The Department is also committed under various operating leases for equipment. In general, these leases are short term in nature. As of June 30, 2012, the Department has the following total future minimum rental payments for operating leases. The Department had no capital leases outstanding as of June 30, 2012.

<u>Year</u>	<u>Operating Leases</u>
2013	403,215
2014	198,542
2015	90,287
2016	<u>4,595</u>
Total Minimum Lease Payments	696,641
Less: Executor Costs	<u>139,220</u>
Net Minimum Rental Payments	<u>557,421</u>
Current Portion	403,215
Long-term Portion	<u>293,426</u>
Total	<u>696,641</u>

7. CONTINGENCIES

Medicare cost reports submitted to the Medicare program together with the related statistics that support cost allocations to the program for the fiscal year ended June 30, 2012 have not been reviewed by the fiscal intermediary. Acceptance and review of these cost reports could result in adjustments to settlements and a liability of the Department to the Medicare program. The effects of these reviews cannot be determined at this time. Medicaid cost reports submitted for final settlement for the fiscal year ended June 30, 2012 have not been reviewed by the intermediary. Acceptance and review of these cost reports could result in adjustments to the settlements and a liability of the Department to the Medicaid program. It is the opinion that adjustments, if any, resulting from this review will not be material.

The Department is involved in several lawsuits arising in the ordinary course of operations. It is the Department's opinion that any losses incurred as a result of known claims existing as of June 30, 2012 will not be material.

8. PPROPRIATIONS FROM THE COMMONWEALTH

The Appropriations Act specifies that unexpended appropriations from the General Fund of the Commonwealth shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the Department's facilities or Central Office for expenditure.

The original appropriation from the General Fund of the Commonwealth for fiscal year 2012 has been adjusted as follows:

FY 2012, Original Appropriation, as of July 1, 2011	\$577,976,833
FY 2012 Central Appropriation Distributions	(6,566,195)
General fund carry forward balance	152,191
DSA Career Pathway Bonuses	(219,560)
Transfer from DOA for Special Education	709
Budget reduction due to advance of FY 12 appropriation to FY 11 for operation at VCBR	(8,314,174)
Transfer to VCBR for the Market Store	25,000
Other Transfers	(7,438,586)
Final (Adjusted) Appropriation, June 30, 2012	\$555,616,218

9. NET PATIENT SERVICE REVENUE (FEES)

The Department's mental health and intellectual disabilities facilities provide a significant amount of services, which are deemed charitable and are subsidized by state General Fund appropriations. Of the total charges of \$574,362,313 for fiscal year 2012, \$298,787,241 was deemed to be charitable services. Charitable write-offs occurs when no third party resources are available and investigation of client resources indicate the client is unable to pay full rate charges or reduced charges determined in accordance with a sliding fee scale. This amount has been deducted from gross patient service revenue. The following chart presents the detail calculations of net patient service revenue (Fees) for FY 2012 and FY 2011, respectively. It is useful to note that the majority of DBHDS revenue consists of Medicaid reimbursements.

Description	FY 2012	FY 2011
Gross Patient/Resident Charges	\$574,362,313	\$576,391,653
Less: Charity Allowance	(298,787,242)	(284,315,840)
Plus: Third Party Cost Settlements Receivable	58,229,674	15,799,442
Less: Contractual Adjustments	251,233,368	263,546,786
Net Patient Service Revenue	\$82,571,377	292,075,813

10. RISK MANAGEMENT AND SELF-INSURANCE

DBHDS is a participant in the Commonwealth of Virginia's self-insurance program administered by the Department of Treasury, Division of Risk Management (DRM) and the Department of Human Resource Management (DHRM). The two types of plans offered include a health care plan for state employees administered by DHRM and a Risk Management Plan and Workers Compensation Plan offered by DRM and DHRM, respectively. Risk management insurance includes property, boiler and machinery, crime, employee dishonesty bond, general (tort) liability, professional liability, and automobile liability. These self-insurance plans are accounted for by the Commonwealth of Virginia in an Internal Service Fund. Detailed information relating to these plans is available at the statewide level only in the

Commonwealth's Comprehensive Annual Financial Report for FY 2012.

In the opinion of management, such coverage is adequate to provide for the ultimate liability, if any, which might result from the settlement of claims currently asserted against DBHDS, as well as the potential liability for incidents of which DBHDS has knowledge, but for which claims have not yet been asserted against DBHDS. Accordingly, no provision is included in the financial statements for such potential liabilities. Sufficient information has not been developed by DBHDS to provide a reasonable basis for estimation of the potential liability for incurred incidents, which have not been reported to DBHDS; however, in the opinion of management, any potential liability for unreported incidents is not expected to have a material effect on the financial position of DBHDS.

DBHDS is self-insured for the first \$100,000 of each risk management loss, subject to any limitations indicated in the Code of Virginia. The Commonwealth of Virginia has not had any insurance settlements exceed the coverage during the past three years.

11. RETIREMENT PLAN

Employees of DBHDS are employees of the Commonwealth. Substantially all full-time classified salaried employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not DBHDS, has overall responsibility for contributions to this plan. Total pension costs under the plan were \$23,035,387 for the year ended June 30, 2012.

12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program that provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides healthcare credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

13. DEFERRED COMPENSATION PLANS

DBHDS through the Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (VRS) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The VRS contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Commonwealth's Department of Accounts is responsible for the accounting, reconciliation, and record keeping associated with State employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the VRS for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the VRS has no fiduciary relationship with plan participants, plan assets are not included in the financial statements.

14. ENDOWMENTS

Donor restricted endowments reside within DBHDS facilities. The net appreciation available for expenditure is \$240,366, and of this amount, \$240,366 is reported as restricted net assets. The *Code of Virginia* authorizes acceptance of donations. Facility management and the donor agreements determine

whether net appreciation can be spent and the accepted spending rate. These policies may vary with each institution.

15. PRIVATE-PUBLIC EDUCATIONAL FACILITIES AND INFRASTRUCTURE (PPEA)

PPEA resulted from legislation that permitted an alternative tool that allows public entities to more efficiently develop infrastructure and achieve better value for the taxpayer. The PPEA provides for solicited and unsolicited proposals to develop or operate a qualifying project. Using the PPEA process, DBHDS entered into comprehensive agreements with Gilbane Development Companies on December 20, 2005 for the building of an initial 100 bed facility (phase one) to treat sexually violent predators and to replace the geriatric wing of Eastern State Hospital with a new 150 bed geriatric facility (phase one). These facilities are known as Virginia Center for Behavioral Rehabilitation (VCBR) and Hancock Geriatric Treatment Center (HGTC), respectively. VCBR, phase one, was completed in February 2008. HGTC, phase one, was completed in April 2008. Phase two of VCBR included an additional 200 beds and was completed in August 2008. Phase two of HGTC included an additional 150 beds and was completed in July 2010.

16. ENERGY PERFORMANCE CONTRACTS

The Department has entered into agreements to fund energy savings projects at various facilities. Installment purchase obligations are established for the project costs. Proceeds from these loans are held in escrow and are released to contractors as construction is completed. The Department has annual debt service payments on these loans and funding is obtained from energy savings realized as a result of the projects. As of June 30, 2012, the Department had installment purchase obligations outstanding in the amount of \$21,601,504. No cash was held by the trustee.

17. EXPENSE PROGRAM DESCRIPTIONS

The Department reports expenses under various state programs. These programs are briefly described below.

Code	Title	Use
197	Instruction	Efforts to provide academic elementary and secondary education. This includes basic skills and knowledge instruction as well as occupational-vocational instruction.
357	Secure Confinement	Efforts to hold patients in secure confinement until such time as they can be returned to the community. These include the forensic unit at Central State Hospital and the Virginia Center for Behavioral Rehabilitation.
421	Pharmacy	Efforts to provide pharmacy services in the community and through state-operated facilities.
430	State Health Services	Efforts to provide direct health care services to individuals and families through state-operated facilities.
445	Financial Assistance for Health Services	Efforts to provide financial aid to localities for the provision of local health services. This includes CSB funding for mental health, intellectual disabilities, substance abuse, and administrative services.
498	Admin & Support	Efforts to provide overall administrative and logistical support services. This includes general management, computer services, food services, housekeeping, laundry, physical and power plant, and training.
561	Regulation of Public Facilities	Efforts to inspect, certify, and regulate public facilities and services, both publicly and privately operated.

**Virginia Department of Behavioral Health
and Developmental Services
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2012**

Federal Sponsor/Program	CFDA#	Balance 7/1/2010	Receipts	Disb.	Balance 6/30/2011
<u>MONETARY ASSISTANCE</u>					
<u>U.S. Department of Health and Humans Services:</u>					
<u>Direct Payments:</u>					
Plan for Children's Behavioral Health Services Exp Through SOC	93.104	-	133,900	133,900	-
Project for Assistance in Transition from Homelessness Grant	93.150	-	1,469,642	1,469,642	-
Cooperative Agreement for State TXTMT Outcome & Performance, SA & MH Services – Projects of Regional & National Significance	93.243	-	614,960	614,960	-
Community Mental Health Block Grant	93.958	-	9,961,991	9,961,991	-
Substance Abuse Prevention and Treatment Block Grant	93.959	426	42,777,830	42,778,256	-
<u>U.S. Department of Justice:</u>					
<u>Direct Payments:</u>					
Criminal and Juvenile Justice and Mental Health Collaboration	16.745	-	77,148	77,148	-
<u>U.S. Department of Education:</u>					
<u>Direct Payments:</u>					
Grants for Infants and Families with Disabilities	84.181	-	10,784,601	10,069,534	715,067
Grants for Infants and Families with Disabilities-ARRA-Fund 1055	84.393	-	2,108,145	2,077,567	30,578
SUB-TOTAL REVENUE		426	67,928,217	67,182,998	745,645
<u>PASS THROUGH GRANTS:</u>					
<u>Department of Health (601)</u>					
Grants for Infants and Families with Disabilities (43074 & 43075)	84.181	-	-	443,479	(443,479)
Grants for Infants and Families with Disabilities-ARRA (43173)	84.393	-	-	-	-
<u>Department of Medical Assistance Services (602)</u>					
Medical Assistance Program (61065, 61095/6)	93.778	-	1,258,183	1,258,183	-
CMS Research (61099)	93.779	-	142,368	142,368	-
Money Follow the Person (61098)	93.771		189,670	189,670	
<u>VA Board for People with Disabilities (606)</u>					
Developmental Disabilities (44305)	93.630	-	5,000	5,000	-
<u>Department of Social Services (765)</u>					
Refugee and Entrant Assistance (64410)	93.576	-	3,278	9,463	(6,185)
<u>Universities</u>					
Longwood University	84.181	-	-	168,726	(168,726)
Longwood University	84.393	-	-	(2,622)	2,622
Radford University	84.181	-	-	102,862	(102,862)
Radford University	84.393	-	-	33,200	(33,200)
SUB-TOTAL CASH PASS THRU IN/(OUT)		-	1,598,499	2,350,330	(751,831)
TOTAL MONETARY ASSISTANCE		426	69,526,716	69,533,328	(6,186)
<u>NONMENTARY ASSISTANCE</u>					
NASMHPD - National Association of State Mental Health Program Directors					
Transformation Transfer Initiative (TTI) (50816)	93.243	82,433	143,500	159,316	66,617
Employment Development Initiative (EDI) (50817)	93.243	-	41,200	5,800	35,400
SUB-TOTAL RECEIVED FROM NON-STATE		82,433	184,700	165,116	102,017
TOTAL FEDERAL ASSISTANCE FOR FY2012		82,859	69,711,416	69,698,444	95,831

Chronological History

***CHRONOLOGICAL HISTORY OF THE
VIRGINIA DEPARTMENT OF BEHAVIORAL HEALTH AND
DEVELOPMENTAL SERVICES***

- 1773 Public Hospital for Persons of Insane and Disordered Minds (currently known as Eastern State Hospital) is established in Williamsburg. This facility is the first in the new world designed exclusively for treatment of people with mental disabilities.
- 1825 Western State Hospital is established in Staunton.
- 1841 Public Hospital for Persons of Insane and Disordered Minds changes its name to Eastern Lunatic Asylum.
- 1869 Central State Hospital is established in Howards Grove.
- 1885 Central State Hospital is moved to Petersburg.
- 1886 Southwestern State Hospital (currently known as Southwestern Virginia Mental Health Institute) is established in Marion.
- 1894 Eastern Lunatic Asylum changes its name to Eastern State Hospital.
- 1909 Catawba Hospital is established near Salem.
- 1910 The Virginia State Colony for the Epileptic and Feeble-minded (currently known as Central Virginia Training Center) is established in Lynchburg to serve people with intellectual disabilities.
- 1911 Individual boards are created to govern each state hospital and the state colony in Lynchburg.
- 1918 Piedmont Hospital (currently Piedmont Geriatric Hospital) is established near Burkeville.
- 1929 DeJarnette Center is established in Staunton.
- 1936 The first state hospital board (currently known as the State Behavioral Health and Developmental Services Board) is established.
- 1939 Petersburg Colony (currently known as Southside Virginia Training Center) is established to serve people with Intellectual disabilities.
- 1940 The Virginia State Colony for the Epileptic and Feeble-minded changes its name to the Lynchburg State Colony.
- 1942 The Department of Mental Hygiene and Hospitals is established in Richmond (currently known as the Department of Behavioral Health and Developmental Services). Hugh C. Henry, MD is appointed the first Commissioner. Daily average patient census is 14,189.
- 1946 Joseph E. Barrett, MD is appointed second Commissioner. Daily average patient census is 13,656.
- 1954 The Lynchburg State Colony changes its name to the Lynchburg Training School and Hospital.
- 1957 Hiram W. Davis, MD is appointed as third Commissioner. Daily average patient census is 13,706.
- 1968 The General Assembly passes legislation (Chapter 10 of Title 37.1) allowing the establishment of community services boards. Northern Virginia Mental Health Institute is established in Falls Church.
- 1969 William Allerton, MD is appointed as fourth Commissioner. Daily average patient census is 14,501.
- 1971 The name of the Petersburg Colony is changed to the Petersburg Training School and Hospital.

- 1973 Northern Virginia Training Center and Southwestern Virginia Training Center are established in Fairfax and Hillsville, respectively. The Department of Mental Hygiene and Hospitals changes its name to the Department of Mental Health and Mental Retardation.
- 1974 The name of the Petersburg Training School and Hospital is changed to Southside Virginia Training Center.
- 1975 Southeastern Virginia Training Center is established in Chesapeake.
- 1976 By act of the General Assembly, the Division of Drug Abuse Control is merged with the Bureau of Drug Rehabilitation in the Department of Mental Health and Mental Retardation to form the Division of Substance Abuse. Leo Kirven, MD is appointed as fifth Commissioner. Daily average patient census is 10,227.
- 1977 Southern Virginia Mental Health Institute is established in Danville.
- 1979 Hiram Davis Medical Center is established in Petersburg.
- 1980 The General Assembly amends Chapter 10 to require all cities and counties to join or establish a community services board by July 1, 1983.
- 1981 Joseph Bevilacqua, Ph.D. is appointed as sixth Commissioner. Daily average patient census is 8,024.
- 1983 Statewide coverage of community services boards is achieved.
- 1985 The Lynchburg Training School and Hospital changes its name to Central Virginia Training Center.
- 1986 Howard M. Cullum is appointed as seventh Commissioner. Daily average patient census is 6,154.
- 1987 The Department of Mental Health and Mental Retardation becomes the Department of Mental Health, Mental Retardation and Substance Abuse Services.
- 1988 The General Assembly enacts a \$68 million community services initiative, the single largest infusion of state funding for community services. The Southside MHMR Support Unit is merged with Southside Virginia Training Center.
- 1990 King E. Davis, Ph.D. is appointed as eighth Commissioner. The geriatric unit at Western State Hospital and the adolescent unit at Eastern State Hospital are closed and patients transferred. Daily average patient census is 5,714.
- 1991 The Department implements Medicaid State Plan Option and intellectual disabilities waiver with community services boards. The Virginia Treatment Center for Children is transferred to the Medical College of Virginia to more adequately serve the hospital's research needs.
- 1994 Timothy A. Kelly, Ph.D. is appointed as ninth Commissioner. Daily average patient census is 4,924.
- 1997 Richard E. Kellogg is appointed acting Commissioner. Daily average patient census is 4,176.
- 1998 Richard E. Kellogg is appointed as tenth Commissioner. The Hall-Gartlan Commission completes its work and makes significant recommendations for change in the system of publicly funded mental health, intellectual disabilities, and substance abuse services. This leads to a major rewrite of

portions of the Code of Virginia dealing with community mental health, intellectual disabilities, and substance abuse services. Daily average patient census is 4,048.

- 1999 Admissions to state hospitals continue to decline as medications used in community settings become more effective. Total admissions to state hospitals declined by 1,193 or 19% to 6,316. Daily average patient census is 3,799.
- 2000 Admissions to state hospitals continue to decline. Total admissions to state hospitals declined by 1,146 or 18.1% to 5,170. The daily average patient census is 3,505.
- 2001 Admissions to state hospitals increased moderately. Total admissions to state hospitals increased by 154 or 3% to 5,324. The daily average patient census is 3,191. DeJarnette Center changes its name to Commonwealth Center for Children and Adolescents.
- 2002 James S. Reinhard, MD is appointed as eleventh Commissioner. Total admissions to state hospitals increased by 734 or 13% to 6,058. The daily average patient census is 3,342. Due to severe state budget and economic conditions, the Department is required to reduce expenses by \$33.4 million in fiscal year 2003 and \$37.3 million in fiscal year 2004. These reductions apply to the Department's facilities, Central Office, and Community Program (CSB) funding.
- 2003 The patient/resident average census continued to decline. Average census was 3,263. Due to recessionary times experienced by the Commonwealth as well as the nation, the Department was forced to reduce its workforce. Total full time staff employed by the Department at June 30 was 8,967, down from 9,090 the previous year. State funding to community programs was reduced by 10%. The Department, in partnership with community services boards and state hospitals, began a series of regional reinvestment projects. These projects involve the reallocation of current state hospital resources to community programs. Legislation creating the Virginia Center for Behavioral Rehabilitation (VCBR) is enacted and Dinwiddie County is selected as the initial site. VCBR is established to treat sexually violent predators.
- 2004 The patient/resident average census continued to decline and amounted to 3,157 at the close of the year. Regional reinvestment projects, initially started in fiscal year 2003, continued as the Department moved forward in making efforts to maximize resources in community settings. Although not officially transitioned until early fiscal year 2005, fourteen information technology services staff are transferred from the Department to the newly formed Virginia Information Technology Agency (VITA).
- 2005 Patient/resident census declined to 3,069. The Department submitted its 2006-2008 biennium budget in the summer and fall of 2005. Governor Warner included \$170 million in new spending attributable to community-based services and \$290 million in capital money to replace Eastern State Hospital, Western State Hospital, Central Virginia Training Center and Southeastern Virginia Training Center. The Department employed 8,770 full-time employees including 4,520 at its mental health facilities, 3,996 at its training centers for the intellectually disabled and 254 in its Central Office.
- 2006 Patient/resident census continued to decline. The average census was 3,033. New funding initiatives in the community along with the replacement of four facilities (Eastern State, Western State, Southeastern Virginia Training Center and Central Virginia Training Center) were approved by the General Assembly. The new initiatives become effective during the 2006-2008 biennium.
- 2007 Patient/resident census continued to decline. The average census was 2,995. Increased funding to the community took place as a result of system transformation efforts related to the development of the 2006-2008 biennium budgets. Regional partnerships were developed to enhance service provision in the community.

On April 16, 2007, 27 students and 5 faculty members were massacred at Virginia Tech. The gunman, a Virginia Tech student, then took his own life leaving the toll of the tragedy at 33 lost lives. In reaction to this incident, Governor Kaine appointed a commission to study the issue and to make recommendations for improvements to the mental health system in Virginia. The recommendations put forth by the commission along with vigorous proposed legislation by the Virginia General Assembly set the stage for changes in Virginia's mental health system.

2008 Patient/resident census continued to decline. The average census was 2,917. The Commonwealth as well as the Nation began experiencing the effects of a serious economic downturn. Various budget reduction plans and expenditure reductions were enacted during the last six months of the fiscal year. As DBHDS moved into the 2008 legislative session, Southeastern Virginia Training Center and Commonwealth Center for Children and Adolescents were proposed to be closed effective June 30, 2008. These facilities remained open but the General Assembly directed the construction of a 75 bed SEVTC and a number of group homes in the community.

2009 On July 1, 2009, the Department officially changed its name from the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services to the Virginia Department of Behavioral Health and Developmental Services.

During the fiscal year the Department continued to reduce its budget for operation. On September 8, 2009, Governor Kaine announced further reductions to DBHDS operations. Cumulative budget reductions implemented in FY 2008, 2009 and carried forward to 2010 were as follows:

Mental Health Facilities	\$29,958,504
Intellectual Disabilities Facilities	\$9,264,086
Central Office	\$10,599,108
VCBR	\$465,987
Community Services Boards	\$34,103,179
Total Reductions	\$84,390,864

It should be noted that the above total does not include a \$15,067,179 cash transfer from our training centers in order to address the current budget shortfall. Budget reductions ranged from 3% at VCBR to 31% at Central Office. Inpatient census continued to decline and stood at 2,857 at June 30, 2009.

2010 James Stewart III was named the 12th Commissioner of DBHDS. DBHDS implemented major budget reductions during the 2010 fiscal year. The focus of the department continued to be the development of a strong community infrastructure. Inpatient census continued to decline and stood at 2,773 at June 30, 2010.

2011 The focus of the Department continued to be in the direction of the development of a strong community infrastructure. Funding was restored or increased for behavioral health programs (\$3.9 million) and for intellectual disability programs (\$42.7 million including the establishment of a \$30 million trust fund). Inpatient census continued to decline and stood at 2,724.

2012 Department of Justice settlement signed by Federal Circuit Court Judge. The agreement calls for significant downsizing of DBHDS training centers for the intellectually disabled.

ACKNOWLEDGEMENTS

This annual report was prepared under the direction of Joy Yeh, CPA, Ph.D., Assistant Commissioner, Finance and Administration and Kenneth M. Gunn, Jr., CPA, CGFM, Director, Office of Budget and Financial Reporting. Annual financial statement preparation is very much a team effort and could not have been possible without the diligent efforts of facility financial management staff and those offices in the Division of Finance and Administration at the Central Office.

The team involved in preparing this report includes Wilma P. Finney, MBA, and Kevin Howard (Budget and Financial Reporting Managers within the Office of Budget and Financial Reporting), Karen Ivey (Financial Reporting and Compliance Manager - Office of Budget and Financial Reporting), Jimmy Hodges, CGFM and Cynthia Hatch (Budget Managers - Office of Budget and Financial Reporting), Randy Sherrod, CPA (Internal Audit Director - Office of Internal Audit), Ramona Williams (Senior Internal Auditor - Office of Internal Audit) and Brenda Mantlo, Administrative Assistant to Dr. Yeh, was also involved in the production of this report.

The Auditor of Public Accounts (APA) has audited previous years' operations of the Department and those audits have been favorable. The Department has been committed to cooperating, within its resources, to comply with and implement all APA recommendations. Copies of prior years' audit reports are obtainable by writing or contacting the Auditor of Public Accounts (APA). The address is:

Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23219
Telephone: (804) 225-3350